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Executive Board of the United Nations Development Programme, the United Nations Population Fund and the United Nations Office for Project Services

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Internal audit and oversight

Activity report for 2015 of the Internal Audit and Investigations Group of the United Nations Office for Project Services

Summary

The Director of the Internal Audit and Investigations Group of the United Nations Office for Project Services hereby submits to the Executive Board this activity report on internal audit and investigation services for the year ended 31 December 2015. The response of UNOPS management to this report is presented separately, as per Executive Board decision 2006/13.

This report provides the opinion of the Internal Audit and Investigations Group, based on the scope of work undertaken, on the adequacy and effectiveness of the governance, risk management and control processes of UNOPS (Executive Board decision 2015/13).

Elements of a decision

The Executive Board may wish to:

(a) *Take note of* the annual report of the Internal Audit and Investigations Group for 2015 and the management response thereto;
(b) *Take note of* the progress made in implementation of audit recommendations, including those that are more than 18 months old;
(c) *Take note* of the opinion, based on the scope of work undertaken, on the adequacy and effectiveness of the organization's framework of governance, risk management and control (in line with Executive Board decision 2015/13); and
(d) *Take note of* the annual report of the Audit Advisory Committee for 2015 (in line with Executive Board decision 2008/37).

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Annexes (*available on the Executive Board website*)

1. Unresolved audit recommendations issued more than 18 months before 31 December 2015

2. Titles of all internal audit reports issued during the year 2015

3. Audit Advisory Committee – annual report 2015

4. Reports issued by the Internal Audit and Investigation Group in 2015 relating to preliminary assessments or investigations which resulted in a finding of misconduct

I. Introduction

1. The Internal Audit and Investigations Group (IAIG) is pleased to provide the Executive Board with the annual report on UNOPS internal audit and investigation activities for the year ended 31 December 2015. This report contains details pursuant to Executive Board decisions 2008/13 and 2012/18, specifically: (a) a table displaying unresolved audit recommendations by year and category; (b) an explanation of findings that remained unresolved for 18 months or more; and (c) titles of all internal audit reports issued during the year.

2. This report provides the group's opinion, based on the scope of work undertaken, on the adequacy and effectiveness of the governance, risk management and control processes of UNOPS (Executive Board decision 2015/13).

3. The IAIG Director reports to the Executive Director of UNOPS and assists the Executive Director with her accountability function. In this regard, IAIG provides assurance, offers advice, recommends improvements and helps to enhance the risk management, control and governance systems of the organization. IAIG also seeks to promote and support accountability by conducting investigations into reports of violations of applicable rules, regulations and administrative or policy directives. Additionally, IAIG supports management in the application of UNOPS general policies and objectives, as described in the UNOPS strategic plan, 2014-2017 (DP/OPS/2013/3).

4. IAIG continued to interact with the UNOPS Audit Advisory Committee during 2015. In accordance with Executive Board decision 2008/37, the annual report of the Audit Advisory Committee for 2015 is attached as annex 3 to this report.

II. Role and functions of the Internal Audit and Investigations Group

A. Mandate, functions and standards

5. The mandate, functions and standards for internal audit and investigations within UNOPS is derived from the organization's financial regulations and rules, approved by the Executive Director as organizational directive 3, revised and effective 1 January 2012. Per regulations 6.01, IAIG:

> shall conduct independent, objective assurance and advisory activities in conformity with the International Standards for the Professional Practice of Internal Auditing. It shall evaluate and contribute to the improvement of governance, risk management and control processes, and report thereon.

6. The Internal Institute of Auditors' International Professional Practices Framework provides the standards and guidance to which IAIG adheres for all of its engagements.

7. Per regulation 6.02, in addition to providing internal audit services to UNOPS, IAIG is "responsible for assessing and investigating allegations of fraud and corruption committed by UNOPS personnel or committed by others to the detriment of UNOPS".

8. The mandate, scope, responsibility, accountability and standards of IAIG are further defined in the Internal Audit Charter approved by the Executive Director and issued as organizational directive 25, revised and effective 2 March 2015, in organizational directive 2, "UNOPS Accountability Framework and Oversight Policies", organizational directive 15 (Addendum 4), "UNOPS Global Structure", and organizational directive 36, "UNOPS Legal Framework for Addressing Non-Compliance with United Nations Standards of Conduct".

B. Coordination with the United Nations Board of Auditors and other United Nations oversight bodies

9. IAIG coordinated its internal audit work with, and made its results available to, the United Nations Board of Auditors. Furthermore, the group's annual planning process included consultation with the United Nations Board of Auditors.

10. IAIG continued to coordinate its activities with the United Nations Office of Internal Oversight Services, the United Nations Representatives of Internal Audit Services (UN-RIAS), the United Nations Representatives of Investigation Services and the Joint Inspection Unit.

III. Approved annual internal audit work plan for 2015

11. The primary aim of the 2015 work plan was to evaluate and improve the effectiveness of risk management, control and governance processes; and provide the Executive Director with the assurance that internal controls and procedures are functioning as intended. The work plan contained a detailed discussion of the planning approach, objectives, risk assessment, scope, nature of audit services and operating budget.

A. Risk-based internal audit plan

12. In preparing its work plan for 2015, IAIG refined the risk assessment model used in earlier years to ensure consistency between internal audit priorities and the goals of UNOPS management. IAIG gathered data from a variety of internal sources and consulted existing components of the risk management system mandated in UNOPS financial regulation 4.01 and financial rules 104.01 and 104.02 to perform this assessment. UNOPS also supported the enterprise risk management programme to improve organization-wide risk identification and mitigation techniques.

13. The 2015 audit work plan, based on the audit risk assessment, acknowledged the geographical diversity of UNOPS operations worldwide and included both compliance and performance audits.

B. Progress on implementation of annual work plan

14. All of the internal audits planned for 2015 were completed and final reports issued during the year (see table 1), except for the Haiti Operational Centre internal audit report which, while completed, will be issued in 2016. This did not impact on the ability of IAIG to provide audit assurance in 2015.

Table 1. Status of implementation of the work plan as at 31 December 2015

	IAIG internal audits	Project audits	Total
Number of audits planned in 2015	8	0*	8
Total audit reports issued	7	22	29
Total audit reports carried over to 2016	1	0	1

* Nil as requests for project audits are client-driven.

IV. Highlights of 2015 audit activities

15. As noted in table 1, IAIG issued 29 reports during 2015, compared with 22 in 2014. The number of reports is greatly influenced by client requests and reporting requirements, as per project agreements.

16. The IAIG audits fell under one of two categories that reflected the differences in approach:

(a) Internal audits conducted by IAIG (seven reports); and

(b) Project audits conducted under the supervision of IAIG by professional auditing firms to fulfil project reporting requirements (22 reports).

17. The 29 audit reports issued in 2015 contained 158 audit recommendations. Of these, 101 pertain to internal audit reports (table 3) and 57 to project audit reports (table 6).

A. Internal audits conducted directly by the Internal Audit and Investigations Group

Internal audit reports issued

18. During the year ended 31 December 2015, seven internal audit reports were issued by IAIG and submitted to the UNOPS Executive Director, as detailed in table 2.

19. IAIG also participated in an interagency audit of the governance function of the South Sudan Common Humanitarian Fund which was led by the UNDP Office of Audit and Investigation.

Table 2. List of internal audit reports issued by the Internal Audit and Investigations Group in 2015

Report title	Rating*
Internal audit of the Jerusalem Operations Centre	Satisfactory
Internal audit of the Serbia Project Centre	Satisfactory
Internal audit of the Afghanistan Operational Hub	Partially satisfactory
Internal audit of the South Sudan Operations Centre	Unsatisfactory
Review of infrastructure process	Not applicable**
Cyber security maturity assessment	Not applicable**
Review of leave entitlements	Not applicable**

* As per the harmonized definitions adopted by the internal audit services of UNDP, UNFPA, the United Nations Children's Fund, UNOPS and the World Food Programme, effective 1 January 2010:

- a "satisfactory" rating means "internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity"; and
- a "partially satisfactory" rating means "internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity".

** This was a consultancy service and, in line with IAIG standard procedures, no overall rating was provided.

Analysis of internal audit recommendations issued in 2015

20. Pursuant to Executive Board decision 2008/13, IAIG analysed the recommendations issued by level of importance and frequency of occurrence in a functional area.

21. The number of internal audit recommendations issued increased from 82 in 2014 to 101 in 2015 and the average number of recommendations per audit report increased from 10 in 2014 to 14 in 2015. IAIG continued its commitment to following the advice of the Audit and Advisory Committee that IAIG focus on the more significant risks and systemic issues.

Level of importance of audit recommendations related to IAIG audits

22. Of the 101 recommendations issued, 44 were considered to be high importance[1] and 57 of medium importance, as shown in table 3. Low-priority recommendations are addressed during the field work stage of the audit.

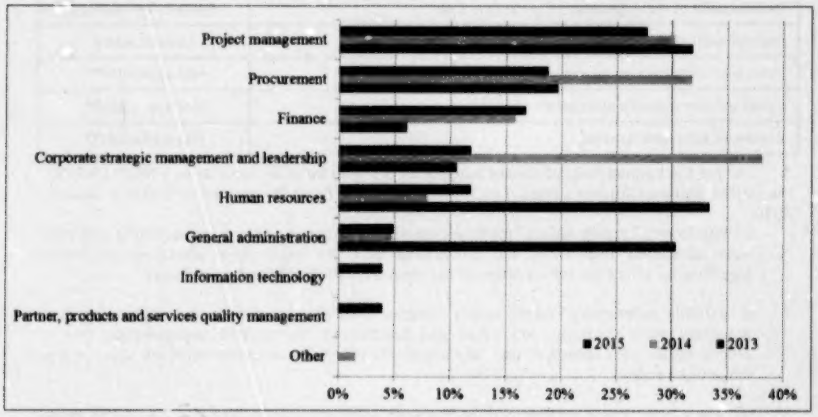
Table 3. Categorization of audit recommendations, by level of importance

Level of importance	Number of recommendations			Percentage of total		
	2013	2014	2015	2013	2014	2015
High	52	37	44	60	45	44
Medium	35	45	57	40	55	56
Total	**87**	**82**	**101**	**100**	**100**	**100**

Frequency of occurrence of audit recommendation by functional area

23. The frequency of audit recommendations by functional area is displayed in figure 1. Most recommendations pertained to project management (27 per cent), procurement (19 per cent) and finance (17 per cent), followed by corporate strategic management and leadership (12 per cent), human resources (12 per cent), general administration (5 per cent), information technology (4 per cent) and partner, products and services quality management (4 per cent). It should be noted that this distribution by functional area was driven by the audit scope as identified in the risk assessment conducted for each engagement.

Figure 1. Internal audit recommendations by functional area[2]



Key areas of improvement identified in 2015 internal audit reports

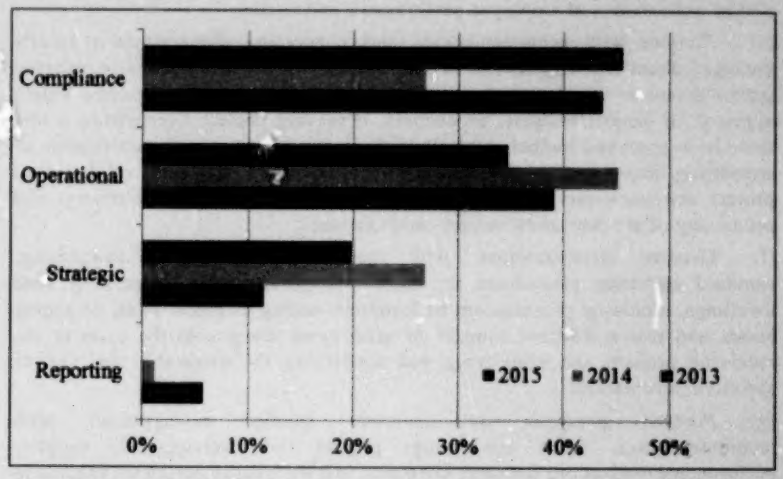
24. Supplementing the previous analysis, figure 2 shows the number of recommendations by objective type.[3] Recommendations on compliance issues (45 per cent) were highest, followed by those addressing operational issues (35 per cent) and strategic issues (20 per cent).

[1] Level of importance:
High: action considered imperative to ensure that UNOPS is not exposed to high risks.
Medium: action considered necessary to avoid exposure to significant risks.
Low: action considered desirable and should result in enhanced control or better value for money.

[2] The "other" category includes security and contract and property review.

[3] As per entity objectives mentioned in "Internal Control – Integrated Framework" (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Figure 2. Recommendations issued in 2015 by objective



25. Key areas for improvement concerned:

(a) *Corporate strategic management and leadership,* with recommendations made concerning: portfolio diversification planning; business acquisition and development; communications with partners; human resources strategic planning; recruitment processes; integration of office practice groups; segregation of duties in key risk management and oversight functions; compliance and oversight mechanisms; application of lessons learned, with particular reference to infrastructure failures; and cyber security;

(b) *Project management,* with recommendations made concerning: discrepancies between works estimations and actual works completed; hub authority with respect to annual targets of sub-offices; planning, budgeting and monitoring of projects; accountability of project managers for project budgets and expenditures; oversight by project budget owners; quality control; formal authorization for budget reallocations; approval of transfer of funds between projects; inclusion of a contingency in every contract for works that is awarded; enforcement of a standardized drawing and approvals process; ensuring that suppliers are provided with necessary equipment required for works; guidance on the return of retention to suppliers; adherence to UNOPS health and safety policy; archiving and maintenance of records; design planning guidance; oversight in the creation of infrastructure contracts; insurance arrangements for infrastructure projects; and learning lessons from problems experienced;

(c) *Procurement,* with recommendations made concerning: approval of incoterms; reporting of suspected vendor or bank misconduct; registration of suppliers; contract non-performance and supplier misconduct; compliance with delegation of authority requirements; guidance on procurement and contract management; field monitoring; background checking of suppliers; checking for conflict of interest; approval of contract amendments; recording of contractual obligations in the enterprise resource planning tool; protective mechanisms in contracts; and standardizing of application of contractual performance mechanisms;

(d) *Human resources,* with recommendations made concerning: procedures for handling requests for certified sick leave and annual leave; contracts for individuals engaged by UNOPS; cyber security training and awareness; quality recruitment through reference to a list of accredited universities and equivalencies; generic terms of references for common engineering positions; continuous professional development of UNOPS engineers; facilitating of

membership and affiliation with professional engineering associations; and annual assessments of employee performance and results;

(e) *Finance*, with recommendations made concerning: management of locally managed direct cost surplus and deficit; viability of the new enterprise resource planning tool to incorporate locally managed direct cost arrangements; timely approval of project budgets; procedures to prevent project expenditure where there is no approved budget; controls in the commitment process, verification of supporting documentation for contracts; processing of payments; validation of project and personnel expenditure; processing of payments to vendors; and processing of pre-payments and pre-paid expenses;

(f) *General administration*, with recommendations made concerning: standard operating procedures for asset management; management of staff dwellings, including procurement of furniture, setting of rental rates, arranging leases and rent collection; transfer of asset costs along with the asset to the receiving project; and classifying and identifying the ownership and use of sensitive information;

(g) *Partner, products and services quality management*, with recommendations made concerning: project risk management; supplier performance evaluations for large contracts; and the quality assurance process at the engagement, project and contract level to ensure timely recognition of defects; and

(h) *Information technology*, with recommendations made concerning: an external review of the new enterprise resource planning system upon deployment; technical security monitoring at both network and system levels; strengthening of the secure systems development life cycle methodology; and systematic cyber-attack readiness testing.

B. Projects audits

Single audit principle

26. IAIG upholds the United Nations "single audit principle" as detailed in the UNOPS report on internal audit and oversight in 2007 (DP/2008/21).

27. While management is responsible for meeting the requirements of project agreements, IAIG provides technical support to project managers in meeting their projects' audit requirements. For that purpose, IAIG engages third-party professional auditing firms to conduct these audits. All the professional firms contracted have been pre-qualified by UNOPS, and adhere to the terms of references approved by IAIG. All audit reports prepared by such firms undergo quality assurance by IAIG before they are issued.

28. In 2015, 20 of the 22 project audit reports were issued by one audit firm with whom IAIG established a three-year professional services contract in 2013. IAIG continues to see an increased consistency in reporting, improved timelines, and a simplified process for conducting project audits.

Internal audit reports issued for projects

29. During the year ended 31 December 2015, 22 audit reports relating to specific projects were issued by IAIG and submitted to the UNOPS Executive Director or Regional Director, depending on the project.

30. As shown in table , a majority of the 22 audit reports for projects issued in 2015 provided both an audit opinion on the financial statement of the project and a rating of the internal control environment. This was in accordance with the requirements of the partner and primary stakeholder(s) concerned.

Table 4. Number of project audit reports issued, 2013-2015

	2013	2014	2015
Audit reports issued expressing an opinion on the financial statement and providing a rating of the internal control environment	12	11	20
Audit reports issued expressing an opinion on the financial statement only	1	3	2
Total	**13**	**14**	**22**

31. As shown in table 5, the proportion of project audits with an unqualified opinion on their financial statements has steadily improved, from 92 per cent in 2013 to 100 per cent in both 2014 and 2015. The progressive increase in the number of unqualified reports reflects the improvement in the quality of financial reports produced by UNOPS.

32. The proportion of project audits with a "satisfactory" rating for internal controls has increased, from 55 per cent in 2014 to 75 per cent in 2015. There were no project audits with an "unsatisfactory" rating for internal controls.

Table 5. Summary of project audit opinions and ratings of internal controls for project audits, 2013-2015

Type of opinion or rating	Number of audit reports			Percentage of total		
	2013	2014	2015	2013	2014	2015
Audit opinion on financial statement of project						
Unqualified opinion	12	14	22	92	100	100
Qualified opinion	1	0	0	8	0	0
Total	**13**	**14**	**22**	**100**	**100**	**100**
Rating of overall level of internal control (where given)						
Satisfactory	8	6	15	67	55	75
Partially satisfactory	4	5	5	33	45	25
Unsatisfactory	0	0	0	0	0	0
Total	**12**	**11**	**20**	**100**	**100**	**100**

Financial impact of project audit findings in 2015

33. The Executive Board, in decision 2010/22, requested that information on the financial impact of audit findings be incorporated in future reports. For 2015, the cumulative financial impact of project audit reports with a qualified opinion was nil.

Project audit recommendations issued in 2015

34. The 22 project audit reports issued generated 57 audit recommendations, an average of 2.6 recommendations per report. This average is a slight increase over the 2014 average of 2.0 recommendations per report, but still below the 3.7 average from 2013.

35. These 57 recommendations are analysed below by importance and frequency of occurrence in a functional area.

Level of importance of audit recommendations related to project audits

36. As seen in table 6, the proportion of audit recommendations rated as being of high importance decreased from 11 per cent in 2014 to nil in 2015.

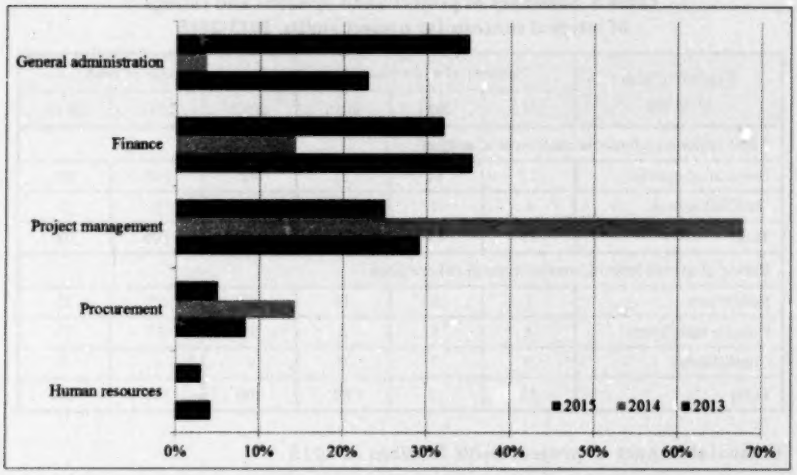
Table 6. Categorization of project audit recommendations by level of importance

Level of importance	Number of recommendations			Percentage of total		
	2013	2014	2015	2013	2014	2015
High	9	3	0	19	11	0
Medium	38	21	57	79	75	100
Low	1	4	0	2	14	0
Total	**48**	**28**	**57**	**100**	**100**	**100**

Frequency of occurrence of project audit recommendations by functional area

37. The frequency of audit recommendations by functional area, displayed in figure 3, shows that in 2015 most recommendations pertained to general administration (35 per cent), finance (32 per cent) and project management (25 per cent), with the remainder pertaining to procurement (5 per cent) and human resources (3 per cent).

Figure 3. Project audit recommendations by functional area



Key areas for improvement identified in 2015 project audit reports

38. Key areas for improvement concerned:

(a) *Project/grant management,* with recommendations made concerning: project oversight by project steering committees; signing of memoranda of understanding; submission of grant and progress reports and disbursement requests to donors; accuracy of value-added tax claimed in financial reports; limiting of total value of grants to any one beneficiary; documenting the review of progress and financial reports; collection of unused project funds following a cancelled agreement; termination procedures; annual performance and results assessments; annual planning memoranda; meetings with district and technical steering groups; documented approval for fuel removed from a project compound; verification of the validity of dollar notes; and retention of performance guarantee funds;

(b) *Finance and enterprise resource planning processes,* with recommendations made concerning: coding, classification and documenting of expenditures; reconciliation of petty cash; segregation of duties in financial processes; accuracy and completeness of transactions in the enterprise resource

planning system; creation of vendor profiles in the enterprise resource planning system prior to project agreement signature; and meeting of deadlines with respect to vendor creation, purchase order approval and payment;

(c) *Procurement*, with recommendations made concerning: procurement efficiency through cost-benefit analysis of price against delivery timeframe; adherence to contract terms; reviewing of quotations during the procurement evaluation process; and timely documenting of approval of requisitions;

(d) *Human resources*, with recommendations made concerning annual employee performance and results assessments;

(e) *General administration (asset management)*, with recommendations made concerning asset safeguards, monitoring, and reporting; and

(f) *General administration (information management)*, with recommendations made concerning the small grants programme database and the maintenance of key grant documentation.

C. Improvements to the UNOPS internal control system

39. In 2015, management introduced further measures to strengthen the internal control system. These improvements were taken into account during the preparation of the audit work plan.

40. Strengthening the UNOPS internal control system is an ongoing process. During 2015, management revised or issued new policies and procedures in a number of areas. Pursuant to Executive Board decisions 2015/4 and 2015/12, management acted swiftly in the area of strategic governance and management to promulgate the establishment of the UNOPS Audit Advisory Committee with a terms of reference comparable to that of other organizations under the purview of the Board. The UNOPS accountability framework and oversight policies were also updated to reflect this change. Also in this area, management continued to ensure that adjustments to the organizational structure were made and implemented across UNOPS. These changes included the establishment of internal lines of authority and accountability of the global management team, definition of clear geographical boundaries for the operational scope of its regional entities, and updates to relevant support and financial systems through which the internal control framework is operationalized. In addition, management revised or issued a number of policies in the areas of procurement, human resources and general support.

41. During 2015, UNOPS management convened a number of internal working groups with representatives from its global management team representing headquarters and field operations. The topics of the working groups included services, strategic investments, costing and pricing, engagement acceptance, decision-making, organizational structure and collaboration. The working groups presented 28 recommendations to the Executive Director all of which are now under implementation. By the end of 2015, management estimated that implementation of the recommendations was 55 per cent complete.

42. UNOPS maintained its global certification by the International Organization for Standardization (ISO) 9001 Quality Management System. UNOPS also expanded the coverage of its ISO 14001 certified Environmental Management System to include infrastructure projects in Guatemala and Sri Lanka, complementing the existing coverage of projects in Afghanistan, Kosovo[4] and the Jerusalem Office. In 2015, UNOPS achieved certification to the internationally applied British Standard for occupational health and safety advisory services, OHSAS 18001, for its operations in Kosovo and the Jerusalem Office. This achievement forms the basis for UNOPS compliance with the United Nations system occupational health and safety framework

[4] In the context of Security Council resolution 1244 (1999).

(CEB/2015/HLCM/7/Rev.2), regarding the adoption of occupational safety and health systems in all United Nations organizations.

43. The UNOPS internal control system is supported by corporate tools and systems. In 2015, UNOPS continued the development of a new enterprise resource planning system designed to better integrate operational processes and systems. This new system should increase the quality of information for management decision-making, enable UNOPS to provide more efficient operational support to partners, and support implementation of IPSAS. The system went live by the end of 2015 and will be a key element of continued efforts to optimize UNOPS risk management systems, and to strengthen internal controls, segregation of duties and compliance of UNOPS operations.

44. In 2015, UNOPS strengthened its approach to risk management with the creation of the dedicated Risk and Quality Group (at Director level). The Risk and Quality Group is mandated with corporate responsibility for risk and quality management, in line with oversight and corporate controls established at institutional levels. The new group will further strengthen the UNOPS approach to risk assessment prior to acceptance of new projects, with particular focus on exposure to technical, legal, financial and political risks. Furthermore, management launched an initiative to introduce the concept of "principled performance". This initiative will complement other models such as the excellence and three lines of defence model, in the continual process of enhancing the organization's risk management systems. In its annual report (DP/OPS/2016/3, annex 3), the UNOPS Audit Advisory Committee noted that UNOPS is particularly exposed to risks when new projects are accepted, and supported the continued focus on strengthening its risk management systems in this area. Furthermore, the committee encouraged management's ambition to introduce the concept of principled performance as a means of strengthening the application of other recognized approaches to corporate governance, risk, compliance, and performance management. In its report, the committee also noted the significant potential to further enhance operational efficiency and effectiveness through a combination of these approaches and digital solutions.

45. During the year, UNOPS management and IAIG worked together to ensure the implementation of internal audit recommendations and to incorporate these results into performance data for various UNOPS departments. By using these performance data, management was able to rapidly resolve issues and areas of risk identified, thereby safeguarding the effectiveness of the UNOPS internal control framework. The result of these efforts is evidenced by the overall implementation rate of 96 per cent of internal audit recommendations issued from 2008 to 2015, with only four recommendations remaining outstanding which are more than 18 months old.

D. Audit opinion

46. Management is responsible for maintaining the adequacy and effectiveness of UNOPS governance, risk management and control. IAIG has the responsibility to independently assess the adequacy and effectiveness of the framework.

47. The audit opinion is based on the audit reports issued by IAIG between 1 January and 31 December 2015 in conformance with the International Standards for the Professional Practice of Internal Auditing. The audit reports pertained to the following:

(a) Audits of field offices;

(b) Audits of cross-functional themes;

(c) Audits of projects; and

(d) The implementation status of audit recommendations as at the end of the calendar year.

48. The majority of the audit reports issued in 2015 covered the 2014 and 2015 activities of UNOPS. A concise summary of the audit work that supports the opinion is included in parts A and B of this section, above.

49. In the opinion of IAIG, based on the scope of work undertaken, the adequacy and effectiveness of UNOPS governance, risk management and control were partially satisfactory, which means that they were generally established and functioning but needed improvement. The implementation ratio of audit recommendations as per 31 December 2015 is 96 per cent, which implies that appropriate and timely action is taken, as and when improvements in governance, risk and control are necessary.

V. UNOPS accountability framework

50. In accordance with the UNOPS accountability framework and oversight policies, the IAIG Director reports to the Executive Board on the resources available and required for the implementation of the accountability framework.

51. The pillars of the UNOPS accountability framework and oversight policies that are internal to the organization include IAIG, the Audit and Advisory Committee, the Ethics Officer, the Office of the General Counsel, the Risk and Quality Group, the Appointment and Selections Panel, the Appointment and Selections Board, the Headquarters Contracts and Property Committee, the balanced scorecard system and the implementation of UNOPS organizational directives and administrative instructions.

52. The fundamental pillars of the UNOPS accountability framework and oversight policies that are external to the organization include the Executive Board, the United Nations Board of Auditors, the Joint Inspection Unit, the Advisory Committee on Administrative and Budgetary Questions, and the Fifth Committee of the General Assembly.

VI. Disclosure of internal audit reports

53. IAIG complies with Executive Board decisions 2008/37 and 2012/18 and the procedures approved therein regarding disclosure of internal audit reports.

54. Accordingly, IAIG has published, on the UNOPS public website, the executive summaries of internal audit reports issued after 30 June 2012 and the complete internal audit reports issued after 1 December 2012. Furthermore, since November 2011 all functional and thematic audit reports, as well as the list of all audit reports issued since 2008, have been posted on the UNOPS public website.

55. The IAIG experience with the public disclosure of audit reports has been positive, as it leads to enhanced transparency and accountability and to timely action by management on audit recommendations. It has also continued to raise the standard of audit reports as a result of the increased quality assurance efforts required by internal auditors.

VII. Advisory services

56. At the request of management, IAIG provides internal advisory services that cover a variety of issues relating to UNOPS internal controls, policies and organizational directives, business processes, proposed project agreements and other specific concerns. In accordance with Institute of Internal Auditors standards, IAIG acts only in an advisory capacity and does not participate in the implementation of any procedure.

57. During 2015, IAIG provided advisory services which included: providing advice on the implementation of a new enterprise resource planning system and continuous monitoring tests to be included in the configuration; advising management on the creation of a treasury function within UNOPS; and

providing advice on the establishment of an enterprise risk management function within UNOPS. IAIG also participated in the UNOPS Information and Communication Technology Advisory Board as an observer.

58. In order to support management, IAIG also continued to conduct internal compliance evaluations, which are a requirement to maintain the ISO 9001, ISO 14001 and OHSAS 18001 certifications held by UNOPS.

59. Furthermore, IAIG continued to assist management in reviewing proposed project agreements containing audit clauses to ensure that these clauses are in accordance with Executive Board decisions and the UNOPS financial regulations and rules. IAIG also assisted management in engaging with audit firms during the procurement and engagement planning processes.

VIII. Investigations

60. IAIG is the sole entity in UNOPS responsible for conducting investigations into allegations of fraud, corruption, abuse of authority, workplace harassment, sexual exploitation, retaliation and other acts of misconduct.

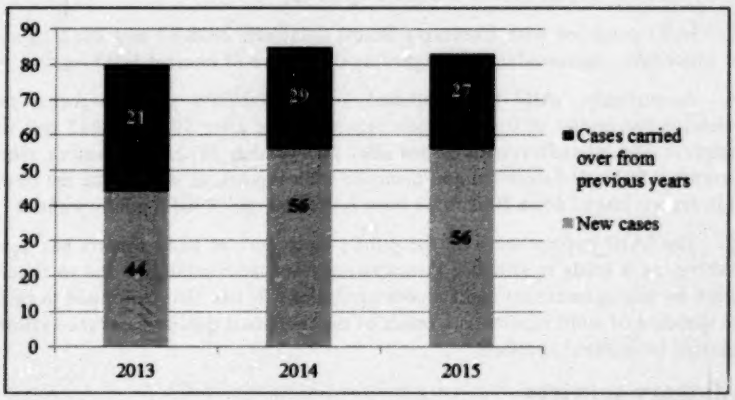
A. Complaint intake

61. In 2015, IAIG received 120 complaints, 56 of which became cases and 64 were found to be unsubstantiated and did not require further investigation. This is compared with 2014, in which IAIG received 93 complaints, 56 of which became cases and 37 were found to be unsubstantiated and did not require further investigation.

B. Cases opened

62. In addition to the 56 cases opened in 2015, a further 27 cases were carried over into 2015 (figure 4).

Figure 4. Number of cases opened, 2013-2015

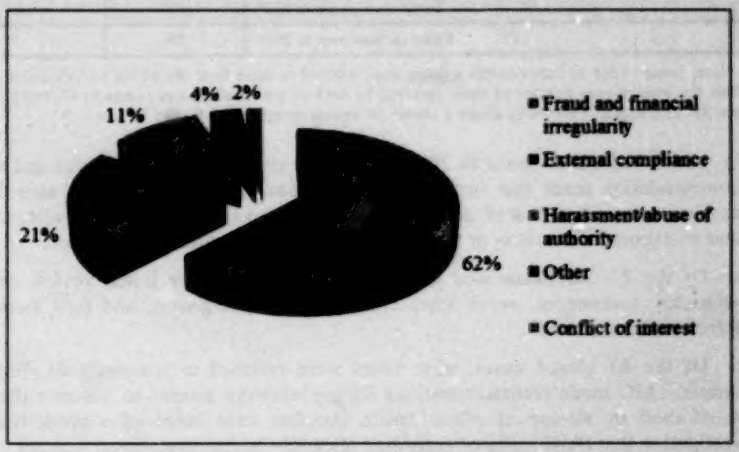


63. Forty-six per cent of the cases opened in 2015 were referred by management or personnel; 44 per cent came through other means (external organizations such as the medical insurance provider), six per cent came through the UNOPS fraud or harassment hotlines, while two per cent originated out of an IAIG audit. In addition, IAIG commenced two proactive investigations (4 per cent of the cases); one aiming at identifying red flags in procurement exercises in a country that historically had a large number of complaints, while the second was a proactive review into the academic credentials of UNOPS personnel.

64. The majority of cases opened in 2015 (35 cases or 62 per cent) involved some type of alleged fraud or financial irregularities (procurement fraud, entitlement fraud, theft, embezzlement or misuse of UNOPS resources). Twenty-

one per cent (12 cases) involved external compliance (allegations of medical insurance fraud and violation of local laws), while another 11 per cent (six cases) involved harassment and/or abuse of authority. Two cases (4 per cent) involved other types of alleged misconduct, such as breach of confidentiality, while one case (2 per cent) involved conflict of interest allegations.

Figure 5. Types of cases opened in 2015



C. Outcome of investigations

65. After a complaint is received, IAIG conducts an initial review to determine whether the allegations fall within its mandate and jurisdiction. If it does, IAIG then conducts either a preliminary assessment or an investigation, depending on several factors, such as the sufficiency of the evidence or seriousness of allegations. If the allegations against a UNOPS personnel member are substantiated, IAIG refers the case to the Human Resources Legal Officer for disciplinary action in accordance with organizational directive 36. If the case involves a UNOPS vendor, the matter is referred to the Vendor Review Committee pursuant to organizational directive 41. Retaliation cases are referred to the Ethics Officer under organizational directive 35.

66. In 2015, IAIG closed 63 cases, reducing its caseload from 83 to 20 cases (a reduction of 75.9 per cent). Table 7 shows the number of cases opened and closed in 2015.

Table 7. Closing of investigation cases in 2015

Cases carried over from previous years	27	33
Cases received in 2015	56	67
Total caseload in 2015	**83**	**100**
A. Cases closed with no further action necessary (not substantiated)		
• *After initial review or preliminary assessment*	16	26
• *After investigation*	7	11
• *Referred to management*	4	6
Subtotal	27	43
B. Cases substantiated but outside the IAIG mandate		
• *Referred to other United Nations organizations*	2	3
• *Referred to national authorities*	1	2
Subtotal	3	5

C. Cases substantiated and closed recommending further action		
• *Referred to Human Resources Legal Officer*	30	
• *Referred to management*	5	
• *Referred to UNOPS Vendor Review Committee*	4	
• *Referred to national authorities*	2	
• *Referred to other United Nations organizations*	1	
Subtotal	**33***	**52**
Total cases closed in 2015	**63**	**100**
Cases carried over to 2016	**20**	

* Note: Some of the 33 cases in this section were referred to more than one of the parties listed. Thus, the overall total number of cases received by each of the listed parties comes to 42, rather than 33. This explains also why annex 4 shows 34 reports being issued for the 33 cases.

67. Of the 63 cases closed in 2015, 33 (52 per cent) were substantiated and a recommendation made that further action be taken, 27 (43 per cent of closed cases) were not substantiated, and a further three cases (5 per cent) were referred either to national authorities or the appropriate United Nations organization.

68. Of the 27 unsubstantiated cases, 16 were closed after initial review or preliminary assessment, seven were closed after investigation, and four were referred to management.

69. Of the 63 closed cases, nine cases were referred to management. For example, IAIG made recommendations for preventative actions to mitigate the risk of theft or misuse of office assets. Another case involved a proactive investigation that IAIG initiated regarding allegedly bogus educational degrees.

Substantiated cases

70. IAIG found the allegations substantiated in 33 cases (52 per cent of cases closed). Thirty cases (28 investigations and two initial reviews) involved UNOPS personnel and thus were referred to the Human Resources Legal Officer for disciplinary action. One case was referred to another United Nations organization as the personnel member involved fell under its mandate. As discussed below, four cases involved vendors and were referred to the Vendor Sanctions Committee.

Financial losses and recovery thereof

71. The total financial loss that was substantiated in investigation reports from IAIG in 2015 amounted to $77,191 ($38,508 in medical fraud, $38,683 misused funds), which is less than 0.1 per cent of UNOPS total annual resources. The amount of $60,358 was identified as UNOPS funds and $16,833 as client funds (about which the clients have been informed). As of 31 December 2015, UNOPS has recovered $28,252 of the total loss identified in these reports in 2015, leaving a net loss of $48,939.

Action taken in cases of misconduct

72. IAIG issued 60 reports in 2015 for 34 cases (see annex 4). Some cases have more than one subject, which means that more than one report may be issued for a single case.

73. IAIG recommended disciplinary action against 65 personnel members in 2015:

(a) 18 individuals were disciplined. Out of the 18, 14 people had their contracts terminated, two were censured, and two were demoted;

(b) 32 individuals separated from UNOPS before the administrative process was completed. Since the United Nations Dispute Tribunal does not permit disciplinary actions for those who have separated from the organization, the matter will be addressed if and when the individuals are considered for future UNOPS positions; and

(c) no action was taken against four personnel members due either to new exculpatory evidence becoming available only after the completion of the IAIG review or to the collected evidence not meeting the standard of evidence required by United Nations Appeals Tribunal; and

(d) the cases for 11 individuals were pending at the end of the year.

74. Management also addressed matters against 10 individuals whose cases originated prior to 2015. Five individuals were disciplined (contracts terminated from UNOPS), while the other five left before the administrative process was completed. Hence, the matter will be addressed if and when the individuals are considered for future UNOPS positions.

75. In addition to administrative recommendations, IAIG recommended referral to national authorities in three cases. One case pertained to theft of UNOPS funds and another case to a major medical insurance fraud ring implicating 26 subjects. The third case involved unknown third parties issuing and selling fraudulent procurement documents using the name of UNOPS.

Vendor sanctions

76. IAIG remains an integral part of the UNOPS Vendor Sanctions Regime and serves in an advisory capacity to the Vendor Review Committee. In 2015, four cases were referred to the Vendor Review Committee for consideration of further action. The cases involved five vendors and one principal. The Vendor Sanction Committee took action in two of the four cases. As a result, UNOPS subsequently debarred one vendor and its principal for three years for engaging in fraudulent practices and obstructing IAIG work. The committee also censured two other vendors for obstruction. The censures do not affect their eligibility to do business with UNOPS or the United Nations, but they would be considered an aggravating factor in any future proceeding. The two other cases against three vendors remained under review by the committee at the end of 2015.

77. At the time of writing, UNOPS has sanctioned 40 vendors and company principals based on IAIG findings. More details, including all UNOPS entries to the United Nations Ineligibility List, are publicly available on the UNOPS website.[5]

D. Strengthening the investigative capacity

78. IAIG has three dedicated professionals who are supported by an investigative assistant. It has continued to rely upon consultants for additional support, which was particularly visible in 2015 as its workload grew. This growth is attributed to strong support of IAIG from the Executive Director, an increase in training offerings and communications about IAIG, and greater cooperation with clients. In 2016, IAIG will add an international individual contractor in a quality assurance function. Furthermore, IAIG engaged the services of a company to perform its forensic computer services through a long-term agreement.

79. In 2015, IAIG revised its standard operating procedures in order to ensure consistency with best practice. IAIG also purchased a new software package for planning and allocating tasks and monitoring workflow. Moreover, IAIG began tracking its investigation recommendations to management in the audit database (TeamMate) in order to systematically monitor and follow up on their implementation.

80. IAIG continues to focus its limited resources on serious cases and refers less serious matters to the appropriate office. For instance, IAIG works closely with the People and Change Group on harassment and abuse of authority cases.

[5] https://www.unops.org/english/Opportunities/suppliers/Pages/Vendor-sanctions.aspx

Similarly, IAIG works with legal officers and senior managers, who may undertake initial reviews of allegations on its behalf.

81. In 2015, IAIG agreed to provide new assistance to the People and Change Group in the upcoming year. Beginning January 2016, IAIG will conduct a check of all separating personnel members during the exit procedure to ensure that there are no outstanding issues against them.

Independent peer review of UNOPS investigative function

82. With a view to improving its investigation function, IAIG, on its own initiative, underwent an external quality assessment in 2015. Such a review was consistent with the International Investigations Guidelines, to which IAIG adheres, as well as the Joint Inspection Unit's recommendation to all United Nations investigative offices.

83. The review team concluded that, overall, the investigation function at UNOPS conforms with its legal framework and generally accepted standards for investigations in international organizations. The review also found that IAIG largely enjoys a reputation of professionalism and efficiency within UNOPS and its work is perceived by stakeholders as fair and competent. IAIG will review and begin implementing the material recommendations that the team made in 2016.

E. Fraud prevention

Training

84. IAIG recognizes the high risk environments that UNOPS operates in and is committed to strengthening preventative measures, particularly in the field of fraud. Pursuant to its revised charter, the IAIG mandate was expanded to include training and fraud prevention. In 2013, UNOPS introduced a standards of conduct workshop for UNOPS personnel. The workshop is part of UNOPS proactive efforts to raise awareness of compliance and ethics. The objectives are to help raise UNOPS employees' awareness of the importance of operating in line with the highest ethical standards, align the work UNOPS does with the UNOPS vision, mission and values, and train personnel to spot potential issues and know where to report concerns or suspicions. IAIG also conducts a session on ethics and integrity in project management at every project management foundation course, which is held quarterly. This training advises personnel involved in project management on, inter alia, the role of IAIG and ways in which misconduct can be reported. In 2015, a total of 516 personnel were trained in fourteen workshops and trainings around the world.

85. In addition, IAIG continues to collaborate with other business units on other fraud prevention strategies. For instance, IAIG will be working with several business groups on developing a comprehensive fraud risk assessment regarding the new UNOPS enterprise resource planning system.

Integrity, ethics and anti-fraud survey

86. The organization is committed to deterring, detecting and preventing fraud and other misconduct in the performance of its mission and in the conduct of its operations. Therefore, in collaboration with the Ethics Office, IAIG issued its fourth annual confidential survey regarding integrity, ethics and anti-fraud. The survey was issued in three languages: English, French and Spanish. UNOPS is the only United Nations organization that conducts this type of survey, and has been recognized by the Board of Auditors as a good practice.

87. Twenty-eight per cent of UNOPS-supervised personnel participated in the survey, which is lower than the 2014 response rate of 40 per cent. This decrease may be attributed to the launch of other surveys in the same period. The survey provided valuable insight into areas of susceptibility to fraud, employees'

concerns, and the effectiveness of deterrence programmes and mechanisms for addressing issues. The results of the survey will be incorporated into the planning of future activities, such as training and other preventative measures.

88. IAIG will also revisit the legal framework for addressing non-compliance with United Nations standards of conduct, working with the Legal Practice Group to consider any changes or updates that could streamline the investigative process.

F. Collaborating with others

89. With the objective of enhancing its investigation function, IAIG collaborated with various UNOPS units, namely the Legal Group, the People and Change Group, the Ethics Office, and several regional and country offices. IAIG was able to resolve many issues raised through official and other channels without proceeding into investigation, due to inter-departmental cooperation and support from senior management. At the same time, IAIG advice continues to be sought by other groups, as reflected in its "for-information-only" caseload.

90. In 2015, IAIG undertook a number of measures to further enhance its capacity to undertake investigations and to exchange fraud intelligence with other investigative units. IAIG increased its efforts to collaborate with the investigation offices of other international organizations on cases of common interest. In addition, IAIG worked closely with the other United Nations organizations in the United Nations Representatives of Investigative Services to strengthen investigation practices and professionalism by providing a forum for development of policies and procedures. For example, IAIG worked with another United Nations organization to draft a framework on joint investigations.

91. This collaboration with other investigative bodies has been further strengthened through the signing of cooperation agreements with other organizations. These include agreements on the prevention, detection and investigation of fraud and corruption, signed with the European Anti-Fraud Office, the European Bank for Reconstruction and Development, and the United States Agency for International Development. Finally, IAIG joined the Law Enforcement and Government Partnership of the Association of Certified Fraud Examiners.

IX. Summary of follow-up of internal audit recommendations

A. Implementation of audit recommendations issued in 2015 and prior years

92. In line with the International Professional Practices Framework for internal auditing, the IAIG annual workplan included follow-up and monitoring activities to ensure that management actions have been effectively implemented.[6] IAIG maintains an online tool designed to enable managers to report action taken on the status of implementation of audit recommendations, and it performs desk reviews on actions taken and information provided thereon.

93. Table 8 shows the outcome, as of 15 January 2016, for all audit recommendations issued between 2008 and 2015. Of the audit recommendations issued in or prior to 2012, 100 per cent were implemented, as were 98 per cent of those issued in 2013. The overall implementation rate of audit recommendations issued from 2008 (the year that IAIG started undertaking internal audits) to 2015 was 96 per cent, indicating high responsiveness on the part of management to implement the audit recommendations.

[6] Framework from Institute of Internal Auditors, Performance Standard 2500 – Monitoring progress.

B. Recommendations unresolved for 18 months or more

94. As a result of concerted and proactive efforts by management, the number of audit recommendations issued more than 18 months before 31 December 2015 (on or before 30 June 2014) that remained unresolved was four (2 per cent of the total 164 outstanding recommendations). It is also worth noting that all recommendations reported as outstanding for more than 18 months in last year's annual report have now been closed. Details are provided in annex 1.

Table 8. Status (as of 15 January 2016) of implementation of audit recommendations issued before 31 December 2015

	2008-2012	2013			2014			2015			Total for 2008-2015
Number of audit recommendations	**Total**	**IAIG audit**	**Project audit**	**Total**	**IAIG audit**	**Project audit**	**Total**	**IAIG audit**	**Project audit**	**Total**	
Implemented/closed	3,541	85	49	134	71	27	98	7	2	9	3,782
as a percentage	*100*	*98*	*98*	*98*	*87*	*96*	*89*	*7*	*4*	*6*	*96*
Under implementation	0	2	1	3	11	1	12	94	55	149	164
as a percentage	*0*	*2*	*2*	*2*	*13*	*4*	*11*	*93*	*96*	*94*	*4*
Total	3,541	87	50	137	82	28	110	101	57	158	3,946

X. Operational issues

A. Resources

95. During 2015, the budgeted IAIG staffing included one director (D1 level), one senior internal auditor (P5 level), four internal auditors (one P4, one P3 and two international individual contractors), one audit assistant, three investigators (one P5, one P3 and one international individual contractor), one conflict resolution and integrity training specialist (P3), and one investigation assistant. In 2016, IAIG will add an international ICA in an investigative quality assurance function.

96. One P5 position was vacant for two months and one P4 position was vacant for four months during the year. All positions were encumbered as of the date of this report. The IAIG internal structure is supplemented by the engagement of third party professional firms and individual consultants. Further, IAIG continued to retain an editor for quality assurance of internal audit reports.

97. IAIG budgeted expenditure was $2.62 million for the year 2015 and actual expenditure was $2.55 million.

B. Involvement with professional bodies and other groups

98. In 2015, the Director of IAIG was appointed Vice Chair of UN-RIAS. IAIG actively participated in the ninth annual meeting in Manila and in the regular conference calls of UN-RIAS. IAIG also participated in the 47th meeting of the broader group, the Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions.

99. In 2015, IAIG became a Law Enforcement and Government Partnership member of the Association of Certified Fraud Examiners. UNOPS is the first United Nations organization to have this membership and to offer accreditation. Association of Certified Fraud Examiners membership will increase UNOPS standard of practice and recognition among other United Nations organizations.

100. In 2015, IAIG continued its formal relationship with the Institute of Internal Auditors, to whose International Professional Practices Framework it adheres and of which all IAIG auditors are members. Auditors also met their continuing professional education requirements and maintained their respective audit and accounting designations and memberships.

101. IAIG participated in the 16th Conference of International Investigators and in the third informal meeting of the heads of investigations of United Nations organizations.

C. Strengthening the audit function

102. IAIG undergoes continuous improvement to its professional practices, internal policies and procedures to remain relevant and current.

103. In 2015, IAIG implemented the use of Wrike, an online work planning and resource allocation tool so that limited audit and investigations resources can be used more efficiently and effectively. IAIG also continued to update its working papers and TeamMate templates to improve its audit process efficiency.

D. Audit Advisory Committee

104. During 2015, the Audit Advisory Committee continued to review the annual work plan, budget, regular progress reports and annual report of IAIG, and to provide advice for increasing the effectiveness of the internal audit and investigation functions.

105. The Audit Advisory Committee annual report for 2015 is in annex 3.